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ABSTRACT

This report summarizes the proposed budgets for U.S. public elementary and secondary education for fiscal year 1998 and describes the budgets and the major factors that influence those budgets. It is the second in a series of "State Fiscal Briefs" on education finance by the Center for the Study of the States. The report is primarily based on information collected from governors' fiscal year 1998 proposed budgets. Other sources of information include state education departments, state budget and finance offices, "Education Week," and "State Tax Notes." The data suggest that many of the final FY 1998 state education budgets will be nearly identical to those proposed by the governors earlier this year. State elementary and secondary school budgets for FY 1998 propose an estimated increase of 5.9 percent in overall spending. Nine governors have made proposals to reduce property taxes. The Texas and New York property-tax-cut proposals are the most comprehensive, but they will likely be changed by their respective legislatures if action is taken this session. Enrollment is estimated to increase about 1.4 percent nationally, though the Far West's will increase 2.7 percent, fueling increases in spending. Five tables and three figures are included. (Contains 19 endnotes.) (LMI)

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STATE FISCAL BRIEF

Center for the Study of the States
Nelson A. Rockefeller Institute of Government

May 1997
No. 43

ED 412 654

Governors' FY 1998 Education Budgets Focus on Property Tax Cuts and Enrollment Changes

DAVID S. LIEBSCHUTZ, JEFFREY S. SCHIEDER & DONALD J. BOYD

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HIGHLIGHTS

- Overall spending in state elementary and secondary school budgets for FY 1998 is proposed to increase an estimated 5.9%.
- Nine governors have made proposals to reduce property taxes. The property tax is the main revenue source for school districts.
- The Texas and New York property tax cut proposals are the most comprehensive, but they will likely be changed by their respective legislatures if action is taken this session.
- Enrollment is estimated to increase about 1.4% nationally, though the Far West's will increase 2.7%, fueling increases in spending.

INTRODUCTION

This is the second in a series *State Fiscal Briefs* on education finance by the Center for the Study of the States. The first one, "Education Spending Faces Demographic and Other Pressures," (#38 -- December 1996) gave an overview of spending trends since 1970 and discussed some of the major factors that have influenced education spending (e.g., special education, teacher salaries, equipment and other capital purchases). This brief discusses the proposed budgets for public elementary and secondary education for FY 1998, which begins in most states in July 1997, and describes the budgets and the major factors that influence those budgets (e.g., the desire for property tax cuts and enrollment increases). Future *State Fiscal Briefs* will look at the education budgets as passed by the state legislatures and contrast them with the proposed gubernatorial budgets, examine the impact of court mandates and their effects on spending disparities between wealthy and poor school districts, and analyze how intrastate spending disparities vary across states and have changed over time.

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OVERVIEW

This analysis presents a summary of the proposed state education budgets for public elementary and secondary education for FY 1998. While there are a few general themes that run across the budgets, it is difficult to paint with a broad brush since no two state education systems or budget mechanisms are exactly alike. However, with that caveat in mind, there appear to be two major factors affecting proposed education budgets for this year. They are:

1. **Property Tax Cuts** -- While state policymakers are wrestling with the increased demands on the spending side of the budget, they are also faced with increased pressure from citizens who want to reduce the tax burden they face, particularly the property tax.

2. **Enrollment Increases** -- With the baby boomlet in full swing, states must address how to accommodate the increased student population through hiring additional faculty, and building new schools or enhancing existing schools, while addressing other pressing needs such as a growing elderly population.

These factors can also be thought of as causing "system change" (e.g, where a property tax cut would shift some funding responsibility from localities to the state) or "system growth" (e.g., where more students or inflationary pressures increase the burden on school districts to provide services).

However, before discussing these factors in detail it is useful to review the actual proposals and how they compare with the FY 1997 approved budgets.

PROPOSED K-12 BUDGETS[1] AND ENROLLMENT

Regional Trends

As Table 1 shows, only three of the eight U.S. Census regions would have state K-12 spending growth rates above the national average of 5.9%. The Southwest would grow the most with a 12.1% increase in expenditures in FY 1998. The Far West would grow 6.9% and New England would grow 6.5%. The other five regions -- Southeast (5.5%), Great Lakes (4.9%), Plains (4.9%), Rocky Mountain (4.1%), and the Mid-Atlantic (3.5%) -- would grow at less than the national average.

The Southwest's growth rate of 12% is deceptive as Texas, which accounts for 66% of the total expenditures of the Southwest region, would itself grow by 16% because of Governor George Bush's (R) proposal to shift a large percentage of funding from local school districts to the state. The other three states in the region -- Arizona, New Mexico, and Oklahoma -- would grow only 5.1% on average.

The Far West's growth of 6.9% is heavily influenced by California, which accounts for 72% of the region's total spending. California would increase expenditures 7.1% between FY 1997 and FY 1998. California's above average growth rate in its education budget comes from: a 2.5% cost-of-living adjustment to be used by school districts to maintain their current level of programming (which would otherwise be limited by a revenue cap), expected enrollment increases; Governor Pete Wilson's (R) Class Size Reduction program; and the dedication of funds for special education reform. Projected expenditure growth in the rest of the region would vary widely with Oregon increasing 17% and Nevada 9.3%, while growth in Alaska, Hawaii and Washington would range from two to four percent.

Enrollment growth in the region is a major catalyst for the increases in the Far West governors' proposed budgets (see Table 2).[2] The Far West has the highest projected enrollment growth (2.7%), nearly double the national average (1.4%). In fact, only the Far West has a growth rate higher than the national average. The Mid-Atlantic (1.4%), Southwest (1.4%), and the Southeast (1.3%) have projected growth rates at or near the national average, and the remaining regions are all below average.

Much of the Far West's enrollment growth has been due to an influx of population, attracted by the region's economic health.[3] Four of the six states in the region were in the top ten in projected enrollment growth -- Nevada (first at 6.4%); California (third at 2.8%); Alaska (seventh at 2.2%); and Washington (tenth at 2%). The other two states, Hawaii and Oregon, also have above average projected enrollment rates for the 1997-98 school year.

By contrast, the Great Lakes and the Plains have the two lowest projected enrollment growth rates for the 1997-98 school year, 0.8% and 0.4%, respectively. Neither region contains a state that has an above-average projected enrollment growth rate. In the two regions, only Illinois has a projected growth rate above 1%. No state in the Plains has a projected enrollment growth rate greater than 0.7%, and North Dakota, projected to actually lose 1,000 students in Fall 1997, has the lowest projected growth rate, -0.8%, of any state in the US.[4]

Individual State Budgets

Ten Fastest Growing States

Despite the regional trends discussed above, the ten fastest-growing states had little in common with each other in size, geography, or even enrollment growth (See Table 3). Three of the states (New Hampshire, South Dakota, North Dakota) are in the bottom third of states for enrollment growth, and only Nevada is in the top ten for both spending growth and enrollment. Although three of the ten fastest growing states are in the Plains (South Dakota, North Dakota, Kansas), five of the eight regions contain a fast growing state.

New Hampshire had the highest growth rate in K-12 appropriations with nearly 29%, but this increase must be put in context. New Hampshire's state government appropriates the least of any state for K-12 education -- only $59 million is proposed for FY 1998, as it relies more on local property taxes for funding education than any other state (localities accounted for 86% of K-12 funds in FY 1994 compared to the national average of 45%).[5] The large increase in funding is due to Governor Jeanne Shaheen's (D) proposal to provide incentives to encourage more public schools to provide kindergarten programs.

TABLE 1
K-12 SPENDING GROWTH BY STATE, FY 1997 TO FY 1998

	Total State Spending (millions)				*State Spending Per Pupil*[1]			
	FY97 Estimated Appropriations	FY98 Governor Recommended	% Change	Rank	FY97	FY98	% Change	Rank
United States	**$140,380**	**$148,698**	**5.9%**		**$3,071**	**$3,208**	**4.5%**	
New England	**5,484**	**5,842**	**6.5**		**2,572**	**2,714**	**5.5**	
Connecticut (a)	1,506	1,534	1.9	45	2,858	2,883	0.9	46
Maine (a)	717	740	3.3	34	3,273	3,395	3.7	24
Massachusetts	2,547	2,825	10.9	5	2,739	2,996	9.4	6
New Hampshire* (a)	46	59	28.6	1	234	297	27.3	1
Rhode Island	463	477	2.9	39	3,009	3,056	1.6	41
Vermont	205	207	1.3	48	1,931	1,957	1.3	43
Mid-Atlantic	**23,315**	**24,124**	**3.5**		**3,390**	**3,458**	**2.0**	
Delaware	555	598	7.8	11	4,742	4,942	4.2	20
Maryland*	2,470	2,600	5.3	21	2,947	3,034	2.9	30
New Jersey	4,851	5,038	3.9	30	3,947	4,014	1.7	38
New York	10,265	10,567	2.9	38	3,587	3,650	1.8	37
Pennsylvania	5,174	5,321	2.8	40	2,824	2,879	2.0	35
Great Lakes	**23,616**	**24,772**	**4.9**		**3,204**	**3,333**	**4.0**	
Illinois	4,174	4,403	5.5	20	2,123	2,214	4.3	19
Indiana* (a)	2,600	2,620	0.8	50	2,626	2,623	-0.1	50
Michigan	8,564	9,107	6.3	16	5,116	5,402	5.6	11
Ohio (a)	4,671	4,879	4.5	26	2,530	2,627	3.8	23
Wisconsin (a)	3,607	3,763	4.3	28	4,035	4,176	3.5	26
Plains	**10,294**	**10,803**	**4.9**		**3,122**	**3,263**	**4.5**	
Iowa	1,761	1,850	5.1	22	3,473	3,642	4.8	17
Kansas	1,676	1,813	8.2	9	3,484	3,746	7.5	7
Minnesota (a)	3,287	3,348	1.9	46	3,872	3,920	1.3	44
Missouri	2,561	2,690	5.0	23	2,852	2,982	4.6	18
Nebraska (a)	575	595	3.5	33	1,955	2,017	3.2	28
North Dakota (a)	215	234	8.6	8	1,822	1,996	9.5	5
South Dakota	219	273	24.8	2	1,460	1,811	24.0	2
Southeast	**32,052**	**33,808**	**5.5**		**2,930**	**3,050**	**4.1**	
Alabama*	2,320	2,480	6.9	14	3,081	3,255	5.6	10
Arkansas* (a)	1,260	1,330	5.6	19	2,775	2,917	5.1	13
Florida	6,632	7,008	5.7	18	2,967	3,075	3.6	25
Georgia	4,295	4,451	3.6	31	3,244	3,307	1.9	36
Kentucky (a)	2,432	2,509	3.2	35	3,674	3,779	2.9	31
Louisiana	1,975	2,037	3.1	36	2,484	2,565	3.3	27
Mississippi	1,098	1,129	2.8	41	2,166	2,227	2.8	32
North Carolina (a)	4,305	4,711	9.4	6	3,567	3,833	7.5	8
South Carolina	1,376	1,435	4.3	29	2,060	2,123	3.1	29
Tennessee	2,154	2,327	8.0	10	2,380	2,540	6.7	9
Virginia (a)	2,895	3,021	4.4	27	2,580	2,636	2.2	34
West Virginia*	1,310	1,370	4.6	25	4,239	4,448	4.9	16
Southwest	**13,446**	**15,073**	**12.1**		**2,424**	**2,680**	**10.6**	
Arizona	1,973	2,104	6.6	15	2,501	2,604	4.1	22
New Mexico	1,309	1,332	1.8	47	3,751	3,752	0.0	49
Oklahoma*	1,530	1,620	5.9	17	2,472	2,605	5.4	12
Texas (a)	8,634	10,017	16.0	4	2,277	2,609	14.6	4
Rocky Mountain	**4,429**	**4,611**	**4.1**		**2,692**	**2,772**	**3.0**	
Colorado	1,719	1,845	7.3	12	2,668	2,802	5.0	14
Idaho	699	715	2.2	42	2,843	2,883	1.4	42
Montana (a)	466	469	0.8	49	2,771	2,793	0.8	47
Utah	1,420	1,450	2.1	44	2,928	2,977	1.7	39
Wyoming (a)	125	131	5.0	24	1,225	1,286	5.0	15
Far West	**27,744**	**29,665**	**6.9**		**3,511**	**3,656**	**4.1**	
Alaska	687	702	2.2	43	5,012	5,014	0.0	48
California	19,972	21,390	7.1	13	3,435	3,579	4.2	21
Hawaii (a)	676	700	3.6	32	3,296	3,348	1.6	40
Nevada (a)	522	571	9.3	7	1,923	1,975	2.7	33
Oregon (a)	1,648	1,932	17.2	3	3,002	3,462	15.3	3
Washington (a)	4,240	4,371	3.1	37	4,587	4,635	1.0	45

[1] Based on state general fund FY97 estimates and FY98 recommendations divided by enrollment projections.

* FY98 and FY97 expenditure numbers from *Education Week*.

(a) States with biennial budgets. Single year appropriation amounts were derived from the state's budget or from amounts provided by the state's department of education.

Currently, New Hampshire public schools are not required to provide kindergarten. If a school does provide a kindergarten program, it is mainly funded through that district's local property taxes. The Governor's proposal would double state aid for kindergarten, from $500 to $1,000 per student and provide $30 million in state bonds over the next five years for construction costs.

South Dakota has the second highest growth rate (25%) of proposed K-12 expenditures in FY 1998. This is the second straight year that South Dakota's funding for K-12 education has grown over 20% (in FY 1997, expenditures grew 26%), as the state has phased in a change to its education finance formula to reduce the prior system's built-in incentive for districts to continuously increase spending. The finance system has changed from an expenditure reimbursement to a guaranteed, per-student formula, which in FY 1998 will be $3,350. The state will calculate each district's property tax revenue contribution toward this per-student amount and will make up the difference. A portion ($41 million) of the state's increased education contribution of $54 million will come from video lottery revenues redirected from the General Fund. The rest of the increase ($13 million) will come from the general fund and will be used to provide for enrollment increases (projected to be only 0.7% for fall 1997) and inflation.

Two states in the Far West -- Oregon (17%) and Nevada (9.3%) -- were also in the top ten. Oregon's state spending growth results from replacing the expected lost local property tax revenues from the enactment of Measure 47, as well as compensating for enrollment growth and inflation. Measure 47, passed by voters in November 1996, amended the Oregon Constitution to limit 1997-98 property taxes to the lesser of 90% of the 1995-96 tax, or 100% of the 1994-95 tax, and it limits future annual property tax increases to three percent, with exceptions.[6] Oregon Governor John Kitzhaber (D) has pledged to completely replace school property tax revenues from the implementation of Measure 47. (However, he has not guaranteed state reimbursement for non-school local losses.) Nevada's 9.3% appropriations growth is driven by the highest expected enrollment growth in the nation (6.4%) and a 3% salary increase for all education staff.

In the Southwest, Texas's expenditures for K-12 education is projected to increase 16% in FY 1998. This growth rate is accounted for by two factors: (1) Governor Bush's plan to decrease the reliance on the local property tax to fund education (see below for a further discussion of this and the other property tax cut proposals); and (2) the fact that the spending is "front-loaded" under the state's biennial budgeting (in the second year of the budget, projected expenditures actually *decline* by 1.5%).

Massachusetts would increase appropriations by 11% in FY 1998. This increase, from $2.5 billion in FY 1997 to $2.8 billion in FY 1998, continues Governor William Weld's (R) commitment to the state's Education Reform Act. Passed by the Massachusetts Legislature in 1993, the Education Reform Act was designed in response to a June 1993 state supreme court ruling that the previous state

TABLE 2
PROJECTED K-12 ENROLLMENT GROWTH BY STATE, 1996 TO 1997

	Fall 1996 (000s)[1]	Fall 1997 (000s)[1]	% Change	Rank
United States	**45,713**	**46,357**	**1.4%**	
New England	**2,132**	**2,153**	**1.0**	
Connecticut	527	532	0.9	26
Maine	219	218	(0.5)	49
Massachusetts	930	943	1.4	17
New Hampshire	196	198	1.0	25
Rhode Island	154	156	1.3	18
Vermont	106	106	0.0	43
Mid-Atlantic	**6,878**	**6,976**	**1.4**	
Delaware	117	121	3.4	2
Maryland	838	857	2.3	5
New Jersey	1,229	1,255	2.1	9
New York	2,862	2,895	1.2	24
Pennsylvania	1,832	1,848	0.9	28
Great Lakes	**7,370**	**7,432**	**0.8**	
Illinois	1,966	1,989	1.2	23
Indiana	990	999	0.9	27
Michigan	1,674	1,686	0.7	31
Ohio	1,846	1,857	0.6	34
Wisconsin	894	901	0.8	30
Plains	**3,297**	**3,311**	**0.4**	
Iowa	507	508	0.2	42
Kansas	481	484	0.6	33
Minnesota	849	854	0.6	35
Missouri	898	902	0.4	37
Nebraska	294	295	0.3	40
North Dakota	118	117	(0.8)	50
South Dakota	150	151	0.7	32
Southeast	**10,941**	**11,083**	**1.3**	
Alabama	753	762	1.2	22
Arkansas	454	456	0.4	38
Florida	2,235	2,279	2.0	11
Georgia	1,324	1,346	1.7	15
Kentucky	662	664	0.3	41
Louisiana	795	794	(0.1)	47
Mississippi	507	507	0.0	43
North Carolina	1,207	1,229	1.8	13
South Carolina	668	676	1.2	21
Tennessee	905	916	1.2	20
Virginia	1,122	1,146	2.1	8
West Virginia	309	308	(0.3)	48
Southwest	**5,548**	**5,624**	**1.4**	
Arizona	789	808	2.4	4
New Mexico	349	355	1.7	14
Oklahoma	619	622	0.5	36
Texas	3,791	3,839	1.3	19
Rocky Mountain	**1,645**	**1,663**	**1.1**	
Colorado[2]	644	658	2.2	6
Idaho	246	248	0.8	29
Montana	168	168	0.0	43
Utah	485	487	0.4	39
Wyoming	102	102	0.0	43
Far West	**7,902**	**8,115**	**2.7**	
Alaska	137	140	2.2	7
California	5,815	5,976	2.8	3
Hawaii	205	209	2.0	12
Nevada[2]	272	289	6.4	1
Oregon	549	558	1.6	16
Washington[2]	924	943	2.0	10

1 Projected K-12 enrollment numbers based on fall 1993 actual data from US Department of Education, *National Center for Education Statistics. Projections of Education Statistics to 2006.* (March 1996) Table 45.
2 Enrollment figures taken from the state budget.

enactment in 1993, state funding for K-12 education has increased over $1 billion, an 85% increase.

North Carolina Governor Jim Hunt (D) proposes to increase appropriations by 9.4% in FY 1998. Two hundred seventy-two million of the $406 million increase in its K-12 budget is directed toward developing higher teacher standards and raising the state's average teacher salary to the national average. In 1995-96 the average national teacher salary was $37,846, 24% above the North Carolina average of $30,564.

North Dakota has a proposed appropriation growth rate of 8.6% in FY 1998. Eleven million of the $19 million increase in state funding is equity aid and supplemental aid for poor districts. Of this eleven million, $1.1 million is supplemental aid for poor districts and the rest provided for legislative efforts to reform the school finance system (the State Supreme Court narrowly upheld the constitutionality of the system in 1994, and several state judges have cited school funding as an important issue facing legislators the FY 1998-99 session).

Kansas's 8.2% growth rate is primarily due to Governor Graves's (R) proposal to lower the state-mandated local property tax mill levy from 33 mills to 29 mills in FY 1998 and to 25 mills in FY 1999, a modified version of which has been enacted. The reduction in local property tax revenues from the reduced mill levy will be made up by the state (see below for further discussion).

Tennessee's 8.0% increase in proposed state appropriations is primarily due to Governor Don Sundquist's (R) funding for the final phase of the state's Basic Education Program (BEP). The BEP is a six-year minimum foundation program* designed in response to the Tennessee Supreme Court's declaration that the state's education finance system was inequitable and therefore unconstitutional. It was designed to provide programs and services needed for a "basic education" and to reduce existing disparities in funding among school districts. The BEP funding formula uses enrollment data, operating costs and a district's ability to raise funds for education to determine the basic level of services that a district needs to provide.

TABLE 3
TEN FASTEST AND SLOWEST GROWING STATE EDUCATION BUDGETS, 1997 (ACTUAL) TO 1998 (PROPOSED)

Fastest Growing		*Slowest Growing*	
State	**% Change**	**State**	**% Change**
New Hampshire	28.6	Indiana	0.8
South Dakota	24.8	Montana	0.8
Oregon	17.2	Vermont	1.3
Texas	16.0	New Mexico	1.8
Massachusetts	10.9	Minnesota	1.9
North Carolina	9.4	Connecticut	1.9
Nevada	9.3	Utah	2.1
North Dakota	8.6	Alaska	2.2
Kansas	8.2	Idaho	2.2
Tennessee	8.0	Mississippi	2.8

National Average = 5.9%

Ten Slowest Growing States

Only two of the slowest growing states shown on Table 3 -- New Mexico and Alaska -- have a projected enrollment growth higher than the national average. The rest of the states have projected growth of less than 1%. Four states -- Montana, Vermont, Mississippi, and Utah -- have almost no projected enrollment growth. The slow spending growth states generally tend to have slow enrollment growth and an absence of significant education initiatives.

Capital Spending

Although all states allocate funds for school building maintenance and construction, several governors have made notable capital spending proposals.

Arizona lawmakers are under pressure to develop a capital finance system that is palatable to the state's Supreme Court by June 30, 1998. In March, Governor Fife Symington (R) signed into law a plan that would funnel $33 million a year from existing sales tax revenues to poor districts to satisfy the court's mandate. The plan, however, is likely to be challenged in court.

Georgia Governor Zell Miller (D) recommended $97 million in FY 1998 general obligation bonds and $64 million from a surplus in FY 1997 lottery funds to fund new construction and/or renovations or additions to public school districts.

Maryland Governor Parris Glendening (D) has proposed to double public school construction expenditures to $138 million in FY 1998 and concentrate on renovation and modernization instead of building new facilities.

As part of her kindergarten proposal, New Hampshire Governor Jeanne Shaheen (D) proposed $30 million in state bonds to cover construction costs. The state will pay for 100% of the construction costs of schools that did not previously provide public kindergarten programs and need to build new facilities for those programs. The state will also pay for 75% of the construction of schools which already provide public kindergarten programs, but need to expand their facilities.

Virginia Governor George Allen (R) proposed a two-part capital plan. First, the Literary Fund, which provides localities with low-interest construction loans and interest-rate subsidies, would be restored, as diversions from the fund to finance operational expenses, a common practice in the past, would be further reduced (only about $15 million in FY 1998). Second, the Literary Fund would provide security for debt issued by the Virginia Public School Authority (VPSA), allowing it to offer financing for equipment and technology.

Washington Governor Gary Locke (D) recommends dedicating $1.35 billion over the next ten years to fully fund all public school construction projects expected to be eligible for state assistance.

FIGURE 1
% CHANGE IN STATE SPENDING FOR K-12 EDUCATION, FY 1997-98 VS. PROJECTED ENROLLMENT CHANGE, FALL 1996-97

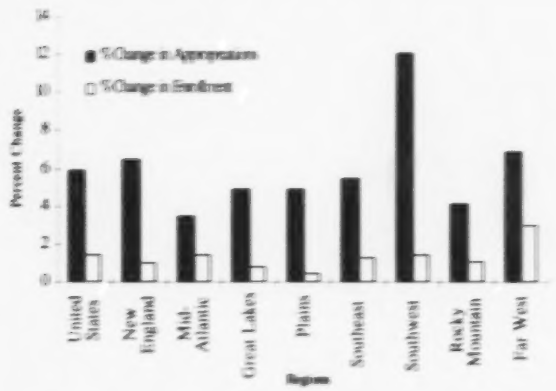
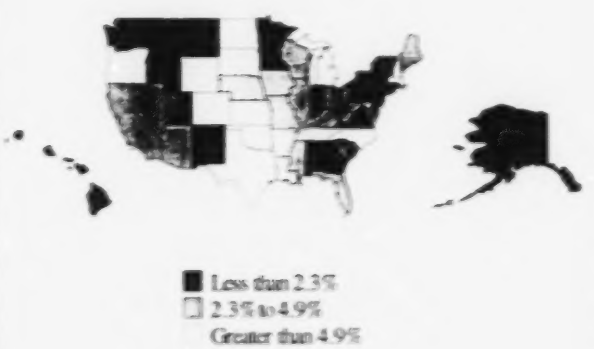


FIGURE 2
FALL 1996-97 % CHANGE IN K-12 ENROLLMENT

FIGURE 3
% CHANGE IN STATE SPENDING PER PUPIL, 1996-97 TO 1997-98



Technology Spending

On the technology front, states are continuing to fund programs to develop statewide communication networks, connect schools to the Internet, or simply provide schools with computers.

California Governor Pete Wilson (R) would begin providing funds for a four year, $500 million educational technology program. The funds would be available to high schools through grants for technology installation projects.

Iowa Governor Terry Branstad (R) would continue to fund projects for the Iowa Communication Network, a statewide communications network which links K-12 public schools, public libraries, the Iowa university system, and government agencies. Governor Branstad would also dedicate $30 million to fund the second year of the five-year $150 million School Improvement and Technology program.

Louisiana Governor Mike Foster (R) would dedicate $75 million in one-time funds (from 1997 excess revenues) for classroom technology initiatives. To receive funding, schools would be required to submit a detailed plan for enhancing student learning and providing for ongoing technology training and maintenance.

Ohio Governor George Voinovich (R) would continue to fund the five-year initiatives SchoolNet and SchoolNet Plus in the FY 1998-99 biennium. The SchoolNet program provides $50 million to wire all public school classrooms for voice, video, and data communication. An additional $45 million would provide a computer for every classroom in the 25% lowest wealth districts. SchoolNet Plus would provide $400 million to districts to provide one computer workstation for every five K-4 students.

Pennsylvania Governor Tom Ridge (R) would fund the second of the three-year, $121 million educational technology initiative, Link to Learn. The initiative is designed to develop a statewide communications network that is able to support not only education, but also health and economic development applications.

PROPERTY TAX REDUCTION

Overview

The property tax is the mainstay of education finance in the United States, and property tax relief proposals abound in FY 1997-98 governors' budgets (See Table 4). The proposals differ from state to state, but most focus on school taxes and on taxes paid by homeowners. Some states would require local governments to cap or reduce their property taxes, or to provide homestead exemptions, and would finance the local revenue loss from increased state aid. Other states would not mandate local tax reductions but instead would provide relief directly to taxpayers in the form of rebates or credits. Finally, two states have proposed cuts in their statewide property taxes.

The property tax cut proposals generally would not have a direct impact on the allocation of state aid across school districts within a state. Instead, most proposals either would make up mandated local revenue losses on a dollar-for-dollar basis, as would be the case in Texas and New York, or would implement relief through direct rebates to property owners rather than through mandated cuts in local

TABLE 4
GOVERNORS' FY 1998 PROPERTY TAX RELIEF PROPOSALS

State	Size of Proposal	FY1998 Education Budget (Proposed)	Proposal Details & Impact on Other Taxes
New York	$3.4B in combined property tax relief ($1.7B) and school aid ($1.7B) by SY 2001-02	$10.6B	• $1.7B in direct property tax reductions to local taxpayers (lost revenues to be replaced by funding from a new dedicated STAR fund containing lottery proceeds & other dedicated State revenues) • $1.7B in additional state support to local districts
Texas	$2.8B	$10.0B	• Increases the homestead exemption from $5,000 to $25,000 • Funded by the state through a new business tax, a .5 percentage point increase in the sales tax, and leaner state government (plan to cut $1B from other programs) and prior surplus
Illinois*	$1.5B in local property taxes	$ 4.2B (FY97) $ 4.4B (FY98)	• Reduces $1.5B (or 25%) from the local school operating taxes • Puts a constitutional amendment before the voters which guarantees the state to provide at least 50% of the funds for foundation level support • Funded from an increase in the state income tax from 3 to 4%
Oregon	$423M (FY97-99 biennium)	$ 1.9B	• $255M from the State School Fund to make up for property tax reductions required by Measure 47 and an additional $168M from Education Investment Budget • Part of the loss of local revenues to be made up from additional general fund monies available due to the suspension of 2% surplus income tax kicker for the biennium
Washington	$217M (FY97-99 biennium)	$ 4.4B	• $217M in property tax relief for homeowners (to be funded by excess revenues in the general fund generated by the state's robust economy)
Kansas**	$41M (FY98) $238M (over 3 years)	$ 1.8B	• Reduces the uniform state-mandated local school finance levy from 33 mills to 29 mills in FY98 and to 25 mills in FY99 • Increased State General Revenue expenditures to make up for the loss of local revenues

- FY97-98 proposals unless noted
* = FY 1997 proposal
** = Legislature passed a modified version of this proposal which the governor has signed into law.

revenue. Nonetheless, if enacted, these proposals would affect the ability of districts to finance education over the longer term. In several states, the proposals are part of an effort to increase the state share of education funding. By relying less upon disparate local resources for education finance, and more on statewide tax bases, some of these proposals have the potential to lead to greater equality across districts.

The remainder of this section describes significant property tax relief proposals, beginning with the most sweeping.

Texas Governor George Bush's $3.6 billion school property tax relief proposal was set aside by Texas lawmakers in early March, while they considered alternatives. Bush's plan, the "Property Tax Cut Plan of 1997" proposed to submit before voters a constitutional amendment that would increase the homestead exemption from school property taxes from $5,000 to $25,000, exempt business inventories from school property taxes, and uniformly reduce school tax rates by 20 cents. To pay for this property tax relief, Governor Bush would dedicate $1 billion for property tax relief from an existing budget surplus and "program efficiencies," institute a new broad-based, flat rate 1.25% business tax (the Texas Business Tax) to replace the corporate franchise tax, and increase the sales tax by half a percentage point to 6.75%. Bush's proposal would increase the state's share of public K-12 education costs to 60%, up from 40% in FY 1994.[9] Local districts would receive dollar-for-dollar reimbursement from the state's Public School Trust Fund for revenues lost through the exemptions in the proposed amendment. In other words, the proposal would not change the relative allocation of state funds to the districts. It is intended to provide property tax relief.

House leaders, believing the Governor's plan did not go far enough in overhauling the state tax system or the public school finance system, have developed their own property tax proposal. The proposal, a bill just passed by the House, would provide more than $3 billion a year in property tax relief for homeowners and mandate that the state fund up to 80% of the costs of public education. Property taxes paid by homeowners would be capped at 75 cents per $100 valuation (the average Texas homeowner currently pays $1.29 per $100 valuation). To fund the tax relief, provisions of the bill would extend the corporate franchise tax to all entities except sole-proprietorships, replace local school property taxes on business property with a state business property tax of $1.05 per $100 valuation, remove sales tax exemptions from 30 goods and services, and increase taxes on cigarettes and liquor. Although the bill easily passed through the House, it has an uncertain fate in the Senate, which appears likely to pare back business tax increases and property tax reductions. The Governor has vowed to lobby for the bill.[10]

New York Governor George Pataki's (R) five-year, $3.4 billion STAR ("School TAx Relief") program has not gotten the backing of the Legislature, especially the Democratic-controlled Assembly. The program, when fully implemented, would cut property taxes $1.7 billion by establishing a state-financed, homestead exemption program, under which the state would provide lost revenue to school districts, and would provide an additional $1.7 billion in state aid for school districts.[11] The program would also give incentives to districts to freeze property taxes and reduce administrative costs. However, in mid-March Assembly Democrats devised their own education finance plan. The five-year plan, Learning, Achieving, and Developing by Directing Educational Resources (L.A.D.D.E.R.), would increase the state share of public education costs to 44% (the state currently funds 38% of public education costs), make pre-kindergarten available to every four year old in the state, extend kindergarten to a full-day throughout the state, and reduce K-3 class sizes to no more than 20 students per class. Since Assembly Democrats, Senate Republicans, and the Republican Governor have not yet even agreed on the size of the state budget surplus even though the fiscal year began on April 1, it seems unlikely that Pataki's plan will survive unscathed. Neither the Governor nor the Assembly specify how they would pay for their plans in future years.

Last year, Illinois Governor Jim Edgar (R) proposed $1.5 billion in school property tax relief for Illinois residents. Based on the 1996 Governor's Commission on Education Funding report, Edgar proposed a 25% ($1.5 billion) school tax reduction that would have been funded by an increase in the state income tax from 3% to 4%. The plan, however, failed to garner consideration in the 1996 legislative session. According to *State Tax Notes*, this continued a decades long trend of legislative inaction concerning education finance reform in Illinois.[12] Although Edgar discussed the need to equalize school funding in his 1997 State of the State address and state budget, he did not make a specific proposal. However, representatives from the Governor's office and legislative leaders have recently had discussions on developing a $1.8 billion education finance reform proposal that would provide a 30% property tax exemption for homeowners financed by increasing the income tax from 3% to 3.75% and by eliminating the state 5% residential property tax credit.[13]

Washington Governor Gary Locke proposed $217 million in property tax relief over the 1997-99 biennium, which would affect all local jurisdictions, not just school districts. The tax relief targets homeowners through a state-imposed property tax credit, a property tax "smoothing mechanism,"[14] and a restriction placed on local regular property tax levies. Governor Locke has already signed into law a measure that extends a 4.7% cut in state property taxes into 1997 and will put a ballot measure before voters in the next general election in November to make the cut permanent. In contrast to most other states' property tax cuts, Washington's tax cut program will decrease state property taxes, not local taxes. This has no direct effect on local tax revenue, but by relieving pressure on the property tax base, it might make it easier for school districts to fund education.

In Kansas, Governor Bill Graves recommended decreasing the state-imposed local school finance levy from 33 mills to 29 mills in FY 1998 and to 25 mills in FY 1999. The Governor's recommended reduction in local tax effort would total $41 million in FY 1998 and $89.3 million

in FY 1999. The Governor and the Legislature have since developed a compromise property tax plan that the Governor has signed into law. The plan reduces the uniform school property tax levy from 33 to 27 mills for the 1997-98 and 1998-99 school years and removes the first $20,000 of assessed valuation of all residential property. This compromise property tax reduction plan will decrease local tax effort and increase state funding of the school finance formula by $94 million in FY 1998 and $139 million in FY 1999.[15]

Oregon Governor John Kitzhaber recommended $423 million to cover expected school district revenue losses from the passage of Measure 47 in 1996. Measure 47, which reduces 1997-98 local property taxes and limits future growth, is expected to further decrease the property tax burden, however, by a much smaller margin that did Measure 5, passed by the voters in 1990. The state share of K-12 education funding was 27% before Measure 5 and 66% afterwards. The state share of funding for education is expected to increase to 70% after Measure 47.[16]

However, due to its vague language and questionable legality, the legislature ceased efforts to implement Measure 47.[17] Instead, Oregon lawmakers placed a new measure -- Measure 50 -- before voters on a May 20 ballot.[18] The two measures differ in the way they revise the Oregon property tax system. Measure 47 would lower and limit actual property taxes, while Measure 50 would reduce and cap assessed value. Measure 50 would also exempt more taxes from the tax limit and give localities greater flexibility than Measure 47. It is not certain whether Measure 50 would provide the same amount or more tax relief than Measure 47.

Three other governors have also made property tax proposals. Arizona Governor Fife Symington recommended increasing the $147 million Homeowner's Rebate property tax relief program by $16 million or about 11%. Under the program, the state reduces local revenue and reimburses local school districts for the lost revenue. In addition to the governor's proposal, in November 1996 voters approved a proposition to amend the state constitution to exempt from property tax the first $50,000 of personal property value for commercial and agricultural properties. South Dakota Governor Rudy Janklow (R) recommended redirecting $41 million of video lottery revenue from the General Fund to the Property Tax Relief Fund. This would be used to fund local revenue losses resulting from state caps on local school taxes. South Carolina Governor David Beasley (R) recommended amending the state's Carnell-Felder set-aside, which limits the growth in the state's General Fund appropriations to 75% of projected growth in revenues. The Governor proposed raising appropriations percentage to 90% of projected growth by earmarking the extra 15% for a Property Tax Relief Fund.

Rationale for the Proposals

States with property tax relief proposals tend to have high property taxes, or have had rapid growth in taxes over the last decade, or both. As shown on Table 5, from FY 1982 to FY 1994, total property taxes relative to personal income increased 12% nationally, from $3.22 to $3.60 per each $100 of personal income.[19] Arizona, Illinois, South Carolina, Texas, and Washington all had much faster growth in this measure of property tax burden than did the nation. Although New York had a relatively small (5%) increase in property tax burden, it had the largest overall property tax burden, $4.95 per $100 of personal income in FY 1994. In Kansas, Oregon and South Dakota, property taxes declined as a percentage of personal income, but all were still at or above the national average.

In Texas and New York, a decade's worth of high or rising property taxes served as the impetus for each state's property tax relief proposals. Texas Governor George Bush declared that the rising burden in the property tax on the middle class and the elderly, caused by the fact that school property taxes have doubled between 1984 and 1994, was the main reason behind his tax relief proposal. In New York, where school property taxes (outside New York City) have grown nearly 7.5% per year between 1984 and 1994 (while inflation has averaged only 4%), the burden of the property tax on homeowners and seniors is cited as the major impetus for the STAR program.

Oregon Governor Kitzhaber proposed his tax relief measure to substitute state dollars for the expected loss in local property tax revenues from the passage of Measure 47. Thus, Oregon voters have forced the governor and legislature to find new ways, other than the property tax, to fund public schools.

Arizona Governor Symington's proposal to increase the Homeowner's Rebate by $16 million is the latest in a series of property tax relief measures to be proposed in Arizona. Since 1994, Arizona has enacted legislation that lowered the assessment ratio on personal property in the commercial and agricultural classes (1994); exempted the first $50,000 tax of personal property value for commercial and agricultural property from the property (proposition passed

TABLE 5
PROPERTY TAXES AS A % OF PERSONAL INCOME, FY 1982-1994

	FY 1982		*FY 1994*		
	Property Taxes Per $100 of PI	Index	Property Taxes Per $100 of PI	Index	% Change
United States	**3.22**	**100**	**3.60**	**100**	**11.9**
Arizona	3.13	97	3.74	104	19.5
Illinois	3.51	109	4.18	116	19.1
Kansas	3.81	118	3.61	100	(5.2)
New York	4.70	146	4.95	137	5.3
Oregon	4.43	138	4.25	118	(4.0)
South Carolina	2.37	74	3.03	84	28.0
South Dakota	4.24	132	4.10	114	(3.2)
Texas	3.13	97	3.95	110	26.3
Washington	2.83	88	3.60	100	27.0

by voters in November 1996); and enacted a $200 million permanent property tax reduction.

South Carolina Governor Beasley is also continuing a recent history of property tax relief in his proposal to amend the Carnell-Felder set-aside. Due to the set-aside, modest revenue growth, and conservative budget forecasts, South Carolina expects to realize revenue surpluses beginning in FY 1998. These surpluses would allow the state to increase the set-aside and dedicate this unbudgeted revenue, with 90% of new revenues going to the Property Tax Relief Fund.

Kansas, South Carolina, and Washington are initiating property tax relief proposals due to expected positive economic and fiscal pictures in their respective states.

Political affiliation may also play a role as a cursory look at the states with property tax relief proposals reveals that seven of the nine states have Republican governors. If Oregon is excluded, as its voters passed a referendum capping property taxes, it is seven of eight.

There appear to be no identifiable regional trends for property tax relief, as six of the eight geographic regions have states with governors proposing property tax relief, although no governors in either the New England or Rocky Mountain states had property tax proposals in their FY 1998 budgets.

Conclusions

Our review of state education proposals has not identified many sweeping trends. Total K-12 spending by state governments would increase by a rather modest 5.9%. Several governors have proposed large increases in overall education resources (e.g., Massachusetts, North Carolina, and South Dakota). Others have proposed large increases in state spending, coupled with cuts in local property taxes, in an effort to shift to greater reliance on state taxes and less reliance on local taxes (e.g., Kansas, New York, Oregon, Texas, Washington and possibly Illinois). Some states are also increasing educational resources in response to past court rulings finding their finance systems unconstitutional. Although most of these increases are being phased in over several years and generally have not had a large single-year impact on proposed budgets, the recent decision by the New Jersey Supreme Court will undoubtedly drive the education finance agenda in that state for the remainder of the legislative session. (See "Upcoming Debates" box.)

It is likely that many of the final FY 1998 state education budgets will be nearly identical to those proposed by the governors earlier this year. Once those discussions have been concluded we will analyze the changes and present them in a future *State Fiscal Brief*.

Upcoming Debates

Lawsuits challenging the constitutionality of state education finance systems have had important effects on state education funding and will continue to play an important role. As noted in the state-by-state discussions in this brief, Arizona, Massachusetts, North Dakota, and Tennessee have efforts underway to change components of their education funding systems in response to court decisions.

Lawsuits will lead to further changes in the years ahead, and in some cases will influence budget debates in the current year:

- **Alabama's Supreme Court found the state's funding system unconstitutional in January 1997 and gave the state one year to remedy the situation. The state's current budget proposal does not address the issue, but presumably Governor Mike Foster (R) will have to propose changes in next year's budget.**
- **New Jersey has been grappling for several years with how to respond to rulings that its system is unconstitutional. In her current budget, Governor Christine Todd Whitman (R) had proposed that the state define an "adequate" education based on curriculum standards, and provide state funding to support that education. On May 15, 1997, the New Jersey Supreme Court found that the proposed level of funding would not support an adequate education in the state's largely urban "special needs" districts, and directed the state to come up with a plan by June 30, 1997, to fully fund these districts. Such a plan will cost around $250 million annually, and the debate is likely to dominate the remainder of New Jersey's legislative session.**
- **Ohio's Supreme Court found the state's education funding system unconstitutional in March 1997, and gave the state one year to remedy the problem. Governor George Voinovich (R) expressed dismay at the decision and said it probably would lead to a tax increase. It is expected to lead to a contentious debate early in 1998.**
- **Vermont's Supreme Court ruled in February 1997 that the state's school finance system was unconstitutional. The Vermont House passed reform legislation in March, but a three-way agreement with the Senate and Governor Dean seems unlikely this year. Education reform will be a major issue next year in Vermont.**
- **Wyoming's Supreme Court decided in November 1995 that the state's school finance system was unconstitutional and required a new system in place by July 1, 1997. The legislature has conducted a cost-of-education study, which it released in March. It will convene to consider education reform legislation on June 2.**

ENDNOTES

1. Unless noted otherwise, the budget figures in this *State Fiscal Brief* are taken directly from documents provided by the states (e.g., state budgets or education department documents).
2. The discussion that follows is based on state-by-state enrollment projections contained in US Department of Education, National Center for Education Statistics, *Projections of Education Statistics to 2006*. (March 1996) Table 45. These projections may vary significantly from states' own unpublished projections and should be viewed only as indicators of broad trends rather than as actual growth rates.
3. This trend was indicated by the regional increase in tax revenues in FY 1996 of 7.5%, the highest in the nation. For a further discussion of this, see Elizabeth Davis and Don Boyd, *State Fiscal Brief #40: Tax Cuts Slowed Healthy Revenue Growth in 1996*. (Albany, NY: Center for the Study of the States, January 1997).
4. According to the National Center for Education Statistics, K-12 enrollment is expected to decline by 2.6% in the District of Columbia.
5. US Department of Education, National Center for Education Statistics, *Digest of Education Statistics 1996*. (November 1996) Table 156.
6. David S. Liebschutz, *State Fiscal Brief #38: 1996 State Tax and Budget Ballot Measures*. (Albany, NY: Center for the Study of the States, December 1996).
7. US Department of Education, National Center for Education Statistics, *Digest of Education Statistics 1996*: (November 1996) Table 77, p. 85.
8. Foundation aid programs provide state funds to local districts to insure a minimum level of educational services as measured in terms of dollars per-pupil.
9. US Department of Education, National Center for Education Statistics, *Digest of Education Statistics 1996*. (November 1996) Table 156, p. 152.
10. *State Tax Notes*, Vol. 12, No. 16, April 21, 1997; Vol. 12, No. 18, May 5, 1997; and Vol. 12, No. 19, May 12, 1997.
11. The $1.7 billion is equivalent to about a 16% increase over five years.
12. *State Tax Notes*, Vol. 12, No. 5, Feb. 3, 1997.
13. *State Tax Notes*, Vol. 12, No. 7, April. 28, 1997; and Vol. 12, No. 9, May 12, 1997.
14. "Smoothing mechanism" refers to the averaging of large changes in property valuation over a number of years. This helps to reduce the sudden and unexpected impact of a step-increase in property taxes. In Washington State, the state constitution will be amended to allow for large increases in property values to be averaged over a four year period.
15. *State Tax Notes*, Vol. 12, No. 13, March 31, 1997 and Vol. 12, No. 14, April 7, 1997.
16. Information provided by the Oregon Department of Administrative Services.
17. *State Tax Notes*, Vol. 12, No. 17, April 28, 1997.
18. The official results from this mail-in ballot election will not be available until mid-June.
19. FY 1982 was the low point of property tax burden since 1970. FY 1994 was the most recent year for which Census state and local finance data is available.

ABOUT THE AUTHORS AND THE CENTER FOR THE STUDY OF THE STATES

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TECHNICAL NOTES

This report is based mostly on information collected from Governors' FY 1998 proposed budgets. Other sources of information used in this report are state education departments, state budget and finance offices, *Education Week*, and *State Tax Notes*.

Education appropriation amounts are the Center's best estimates of actual state funds allocated for the purpose of educating students in public elementary and secondary schools. This definition includes state appropriations for: foundation aid, state categorical grants, special education services, administration, transportation, and school lunch programs. It excludes: federal funds, local property tax funds, and state funds used for adult education, pre-K programs, vocational education, and work force preparation. Education expenditures from Lottery Funds were included in state aid totals. Most appropriation totals are derived from a state's General Fund but some states, such as Massachusetts, Michigan, and Utah, have established separate school aid funds from which they fund K-12 education. These funds were then used to derive appropriation totals instead of the General Fund.

State appropriation amounts are not the same as total funds guaranteed to school districts by the state. The state guarantee is a target amount set by the state, usually in terms of a per-student guarantee, that is guaranteed to school districts. It assumes a combination of state and local money for funding districts. The state share of this guarantee will vary, by district, depending on the amount of revenues generated by localities, which are mainly revenues from property taxes (Thus, the state's share of funding in a school district in a wealthy district may be 30%, whereas the state's share in a poor district may be 50%).Wherever a state has established a state guarantee, the state share, not the "state guarantee," was used.

Twenty states have a biennial budget system. Thus, single year appropriation totals may not be totally representative of the "bigger education funding picture" as, for accounting purposes, the state may front or back-load funding. Year-to-year analysis may misrepresent the bigger picture. For example, Texas, for at least the last two biennia (FY1996-FY1997 and FY1998-FY1999), has front loaded its education budget. A series of one year analyses of proposed state funding would show Texas decreasing funds by 3.4% in FY 1997, increasing funds by 16% in FY 1998, and decreasing funds by 1.5% in FY 1999. These one year analyses may, especially when looking at FY 1997 and FY 1999, misrepresent the fact that Texas education appropriations would increase 13% between the biennia.

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